

Sapura Energy (SAPE MK) : BUY

Mkt. Cap: US\$1,353m | 3m Avg. Daily Val: US\$12.4m

Last Traded Price (25 Mar 2019): RM0.35

Price Target 12-mth: RM0.41 (19% upside) (Prev RM0.59)

Analyst

Malaysian Research Team +603 2604 3333; general@alliancedbs.com

Recovery expected

- Sapura Energy recorded a core loss of RM1170m
- Dragged down by E&C and drilling divisions
- Earnings expected to recover led by a stronger orderbook
- Maintain BUY with lower TP of RM0.41

Forecasts and Valuation

FY Jan (RMm)	2018A	2019A	2020F	2021F
Revenue	5,895	4,568	5,996	7,759
EBITDA	1,779	461	1,529	1,784
Pre-tax Profit	(2,324)	(2,575)	174	412
Net Profit	(2,503)	208	134	317
Net Pft (Pre Ex.)	(300)	(1170)	134	317
Net Pft Gth (Pre-ex) (%)	nm	(290.0)	nm	137.3
EPS (sen)	(42.1)	(22.3)	0.73	1.73
EPS Pre Ex. (sen)	(5.0)	(10.8)	0.73	1.73
EPS Gth Pre Ex (%)	nm	(114)	nm	137
Diluted EPS (sen)	(42.1)	1.71	0.74	1.74
Net DPS (sen)	0.0	0.0	0.0	0.0
BV Per Share (sen)	159	75.5	76.5	78.2
PE (X)	nm	nm	47.4	20.0
PE Pre Ex. (X)	nm	nm	47.4	20.0
P/Cash Flow (X)	2.3	11.6	4.9	10.5
EV/EBITDA (X)	9.4	28.4	9.9	8.1
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	0.2	0.5	0.5	0.4
Net Debt/Equity (X)	1.7	0.6	0.6	0.6
ROAE (%)	(22.2)	(23.3)	1.0	2.2

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Another year in the red. Sapura Energy recorded a headline profit of RM208m for FY19 (FYE Jan) after recording a gain on disposal of RM2664m for the sale of a 50% stake of its upstream division, RM257m of profit from discontinued operations, RM1412m impairment for PPE and RM108m impairment for goodwill. After stripping out the exceptional items, Sapura Energy recorded a core loss of RM1170m, which was way below our and consensus' expectations, constituting 354% of our net loss projection. The lower revenue recorded in FY19 was primarily due to the reclassification of E&P revenue upon the sale of a 50% stake in the upstream business. Total revenue before the reclassification was RM5504m (-6.6% y-o-y). The marginally lower revenue for the year was attributable to lower E&C and drilling activity. A special dividend of 0.5sen per share was declared in respect of the sale of a 50% stake in its upstream business.

Weaker quarter. 4QFY19 core loss stood at RM583m, primarily due to the E&C division which recorded a loss before tax of RM176m due to lower margins and provisions made for some old vessels. The provisions made were estimated to be about RM170m. Stripping out the provisions, the E&C division was at breakeven. The lower profit was also partly attributable to the weaker drilling segment.



Flash Note

The future is bright. Despite recording a loss for FY19, we opine that Sapura is on track for a recovery. We believe that the sale of the upstream business to OMV is a good move as it can utilise RM7.2bn of the proceeds to repay borrowings in FY20. The repayments should reduce interest cost by about RM314m. The sale of its upstream business to OMV has also lowered its gearing to about 0.6x from 1.7x previously. The orderbook expanded by RM9.3bn during FY19 and is a strong testament of its track record as a leading player in its field of work. Its current orderbook stands at RM17.2bn, of which RM6.9bn is expected to be recognised in FY20 and RM4.0bn in FY21. Drilling activity is expected to pick up slightly in FY20 as the company is expecting 8 rigs to be contracted followed by 11 and 13 rigs in FY21 and FY22. Hence, we maintain our BUY call, but

lower our SOP-derived TP to RM0.41, after lowering our FY20-21F earnings assumption on lower revenue and margins for E&C division.

Quarterly / Interim Income Statement (RMm)

FY Jan	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Revenue	1,189	1,502	1,485	24.9	(1.1)
Other Oper. (Exp)/Inc	(1,084)	(1,340)	(1,846)	70.2	37.8
Operating Profit	105	163	(361)	nm	nm
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	56.9	77.5	61.4	7.8	(20.8)
Net Interest (Exp)/Inc	(205)	(256)	(249)	(21.6)	2.6
Exceptional Gain/(Loss)	(2,209)	56.2	1,083	nm	1,829.0
Pre-tax Profit	(2,252)	40.3	535	nm	1,228.3
Tax	(34.4)	(71.9)	(35.2)	2.4	(51.0)
Minority Interest	0.87	0.56	2.91	236.6	417.2
Net Profit	(2,286)	(31.1)	500	nm	nm
Net profit bef Except.	(76.5)	(87.3)	(583)	(662.4)	568.0
EBITDA	(1,860)	219	725	nm	231.3
Margins (%)					
Opg Profit Margins	8.8	10.8	(24.3)		
Net Profit Margins	(192.2)	(2.1)	33.7		

Source of all data: Company, AllianceDBS

Flash Note

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Mar 18	0.51	1.05	BUY
2:	09 May 18	0.67	1.05	BUY
3:	02 Jul 18	0.62	1.30	BUY
4:	28 Aug 18	0.35	0.57	BUY
5:	13 Sep 18	0.45	0.57	BUY
6:	25 Sep 18	0.44	0.57	BUY
7:	01 Oct 18	0.43	0.57	BUY
8:	12 Nov 18	0.38	0.59	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Malaysian Research Team

Flash Note

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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Sources for all charts and tables are AllianceDBS unless otherwise specified.

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Flash Note**DBS Regional Research Offices**

HONG KONG**DBS (Hong Kong) Ltd**

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

THAILAND**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanukul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel: 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

MALAYSIA**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

INDONESIA**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

SINGAPORE**DBS Bank Ltd**

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

